

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Iron County Medical Care Facility</u>	County Iron
Audit Date December 31, 2004	Opinion Date February 24, 2005	Date Accountant Report Submitted To State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 750 Trade Centre Way, Suite 300	City Portage	State MI	ZIP 49002
Accountant Signature 			

Iron County Medical Care Facility

**Financial Report
with Additional Information
December 31, 2004**

Iron County Medical Care Facility

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Independent Auditor's Report

To the Iron County Family Independence Agency Board
Iron County Medical Care Facility

We have audited the accompanying balance sheet of Iron County Medical Care Facility (a component unit of Iron County) as of December 31, 2004 and 2003 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Iron County Medical Care Facility at December 31, 2004 and 2003 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

February 24, 2005

Iron County Medical Care Facility

Balance Sheet

	December 31, 2004	December 31, 2003
Assets		
Current Assets		
Cash and cash equivalents (Note 2)	\$ 364,283	\$ 346,834
Residents accounts receivable (Note 3)	808,799	702,613
Estimated third-party payor settlements	-	75,000
Other current assets	155,247	150,597
Total current assets	1,328,329	1,275,044
Assets Limited as to Use (Note 2)	609,459	858,776
Property and Equipment (Note 4)	7,440,425	7,559,286
Total assets	\$ 9,378,213	\$ 9,693,106
Liabilities and Net Assets (Deficit)		
Current Liabilities		
Accounts payable	\$ 437,943	\$ 197,836
Resident trust liability	29,341	28,426
Current portion of long-term debt (Note 5)	127,902	121,061
Estimated third-party payor settlements	175,000	-
Accrued liabilities and other:		
Accrued compensation and related liabilities	280,979	457,709
Accrued compensated absences	689,043	651,223
Accrued interest	26,834	27,774
Deferred revenue - Proportionate Share Program	40,669	85,541
Resident deposits and advances	8,500	7,000
Total current liabilities	1,816,211	1,576,570
Long-term Debt (Note 5)	3,633,293	3,761,195
Net Assets		
Invested in capital assets - Net of related debt	3,679,230	3,677,030
Restricted for debt service	233,150	275,311
Unrestricted	16,329	403,000
Total net assets	3,928,709	4,355,341
Total liabilities and net assets	\$ 9,378,213	\$ 9,693,106

Iron County Medical Care Facility

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended	
	December 31, 2004	December 31, 2003
Operating Revenue		
Net service revenue	\$ 10,984,460	\$ 10,791,342
Other operating revenue	32,218	27,233
Proportionate Share reimbursement	302,720	209,523
Total operating revenue	11,319,398	11,028,098
Operating Expenses		
Salaries	6,649,772	6,929,670
Other expenses	5,174,327	5,138,417
Total operating expenses	11,824,099	12,068,087
Operating Loss	(504,701)	(1,039,989)
Other Income (Expenses)		
Interest income	16,031	25,292
Gain (loss) on sale of property	-	(18,814)
Contributions	2,480	30,230
Interest expense	(208,959)	(215,714)
Total other expenses	(190,448)	(179,006)
Excess of Expenses Over Revenue	(695,149)	(1,218,995)
Transfer from County	268,517	120,000
Decrease in Net Assets	(426,632)	(1,098,995)
Net Assets - Beginning of year	4,355,341	5,454,336
Net Assets - End of year	\$ 3,928,709	\$ 4,355,341

Iron County Medical Care Facility

Statement of Cash Flows

	Year Ended	
	December 31, 2004	December 31, 2003
Cash Flows from Operating Activities		
Cash received from residents and third-party payors	\$ 11,128,273	\$ 10,633,581
Cash paid to employees and suppliers	(11,341,793)	(11,976,184)
Cash received from Proportionate Share Program	257,848	168,504
Other operating receipts	32,218	27,233
Net cash provided by (used in) operating activities	76,546	(1,146,866)
Cash Flows from Noncapital Financing Activities		
Resident trust deposits	915	124
Resident security deposits	1,500	7,000
Transfers from other county funds	268,517	120,000
Contributions	2,480	30,230
Net cash provided by noncapital financing activities	273,412	157,354
Cash Flows from Investing Activities		
Proceeds from sale of investments	42,161	56,571
Interest received	16,031	25,292
Net cash provided by investing activities	58,192	81,863
Cash Flows from Capital and Related Financing Activities		
Proceeds received on bonds	-	17,380
Principal payments on long-term debt	(121,061)	(117,744)
Interest paid on long-term debt	(209,898)	(212,940)
Purchase of property and equipment	(266,898)	(180,920)
Net cash used in capital and related financing activities	(597,857)	(494,224)
Net Decrease in Cash and Cash Equivalents	(189,707)	(1,401,873)
Cash and Cash Equivalents - Beginning of year	930,299	2,332,172
Cash and Cash Equivalents - End of year	\$ 740,592	\$ 930,299
Balance Sheet Classification of Cash		
Current assets	\$ 364,283	\$ 346,834
Assets limited as to use	376,309	583,465
Total cash	\$ 740,592	\$ 930,299

Iron County Medical Care Facility

Statement of Cash Flows (Continued)

	Year Ended	
	December 31, 2004	December 31, 2003
Reconciliation of Operating Loss to Net Cash from Operating Activities		
Operating loss	\$ (504,701)	\$ (1,039,989)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	385,759	395,605
Change in assets and liabilities:		
Resident accounts receivable	(106,186)	(157,761)
Third-party settlement receivables	250,000	-
Other current assets	(4,650)	(29,800)
Increase (decrease) in accounts payable	240,106	(199,470)
Increase (decrease) in other accrued expenses	(138,910)	55,568
Construction payable	-	(130,000)
Deferred revenue	(44,872)	(41,019)
Net cash provided by (used in) operating activities	<u>\$ 76,546</u>	<u>\$ (1,146,866)</u>

There were no significant noncash investing, capital, or financing activities during the years ended December 31, 2004 and 2003.

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 1 - Nature of Business and Significant Accounting Policies

Iron County Medical Care Facility (the "Facility") is a component unit of Iron County, Michigan. The Facility is a 200-bed, long-term medical care unit owned and operated by Iron County. Seventy-one beds were added via the purchase of Crystal Manor effective July 1, 2002. The facility also operates a 25-bed assisted-living unit. It is governed by the Iron County Family Independence Agency Board. This Board consists of three members, two of whom are appointed by the County Board of Commissioners and one appointed by the Michigan governor. Further, the County Board of Commissioners approves the Facility's revenue and expenses as a line item in the County budget.

The accounting policies of the Facility conform to accounting principles generally accepted in the United States of America as applicable to local governmental units. Because the Facility provides a service to citizens that is financed primarily by a user charge, the Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Basis for Presentation - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Facility follows the "business-type" activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the Facility's financial activities.

Enterprise Fund Accounting - The Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has not elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Assets Limited as to Use - Assets limited as to use primarily include assets set aside by the Board of Trustees for future capital improvement, over which the Board retains control, and may, at its discretion, subsequently use for other purposes.

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note I - Nature of Business and Significant Accounting Policies (Continued)

Property and Equipment - Property and equipment amounts are recorded at cost. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Resident Funds - The Facility maintains various bank accounts for deposits and disbursements for the residents' personal expenses. These funds are assets of the residents.

Compensated Absences - Compensated absences are charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements.

Proportionate Share Reimbursement Program - During the years ended December 31, 2004 and 2003, the Facility participated in this program sponsored by the State of Michigan.

In 2004, two transactions were completed. The first transaction, in June, was recorded in revenue in relation to the state fiscal year ended September 30, 2004. The second transaction in October was for the state fiscal year ending September 30, 2005 and therefore was recognized one quarter in revenue and three quarters in deferred revenue. The first transaction included an amount equal to approximately 3 percent of the annual Medicaid reimbursement in lieu of the normal administrative adjustment or inflation factor.

In 2003, two transactions were completed. The first transaction in September was recorded in revenue in relation to the state fiscal year ended September 30, 2003. The second transaction in October was for the state fiscal year ended September 30, 2004 and therefore was recognized one quarter in revenue and three quarters in deferred revenue.

Net Assets - Net assets of the Facility are classified in three components. Net assets invested in capital assets net of related debt consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Net assets restricted for debt service consist of amounts deposited with a trustee as required by bond indentures. Unrestricted net assets are remaining net assets that do not meet the definition of invested in capital assets net of related debt or restricted.

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Service Revenue - The Facility's principal activity is operating a long-term health care facility for the elderly. Revenue is derived from participation in the Medicaid and Medicare programs, as well as from private pay residents. Amounts earned under the Medicaid and Medicare programs are subject to review and audit by the third-party payors, and make up a significant portion of revenue earned during each year, as follows:

	2004	2003
Percent of revenue:		
Medicaid	84 %	83 %
Medicare	8 %	9 %

The payment methodology related to these programs is based on cost and clinical assessments that are subject to review and final approval by Medicaid and Medicare. Any adjustment that is a result of this final review and approval will be recorded in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review.

Medicaid reimburses the Facility for in-resident routine service costs on a per diem basis, prospectively determined. Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes they are in compliance with all applicable laws and regulations and are not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Maintenance of Effort - Maintenance of Effort (M.O.E.) is a County obligation to the State of Michigan. Every month, the County receives a bill from the State of Michigan for each Medicaid resident day approved by the State during that month. M.O.E. is being paid by the County out of voter approved millage funds and is not recorded in the Facility's operating expenses.

Reclassification - Certain prior year amounts have been reclassified to conform to current year presentation.

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 2 - Deposits and Investments

The Facility's deposits and investments are composed of the following:

	2004		2003	
	Assets		Assets	
	Cash	Limited as to Use	Cash	Limited as to Use
Deposits:				
County	\$ 333,373	\$ -	\$ 281,205	\$ -
Bank	30,235	376,309	64,954	583,465
Petty cash	675	-	675	-
Investments	-	233,150	-	275,311
Total	<u>\$ 364,283</u>	<u>\$ 609,459</u>	<u>\$ 346,834</u>	<u>\$ 858,776</u>

Cash - County Treasurer - These funds were under the control of the County Treasurer, who deposited these funds with a bank. It is impractical to determine the amount covered by federal depository insurance as these funds are only a portion of the entire County deposits.

Cash - Bank - The federal depository insurance coverage pertains to all the deposits of the County; hence, the specific coverage pertaining to the Facility's deposits is not determinable.

Investments - The Facility is authorized by Michigan Public Act 20 of 1943 (as amended) to invest surplus monies (of nonpension funds) in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers, acceptances, and mutual funds and investment pools that are composed of authorized investment vehicles. The Facility's investments are categorized below to give an indication of the level of risk assumed by the Facility at December 31, 2004 and 2003. Risk Category 1 includes those investments that meet any one of the following criteria:

- (a) Insured
- (b) Registered
- (c) Held by the Facility or its agent

Risk Categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Facility's name. Category 3 includes investments held by:

- (a) The counterparty or
- (b) The counterparty's trust department (or agent) but not in the Facility's name.

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 2 - Deposits and Investments (Continued)

2004	Category			Carrying Amount
	1	2	3	
U.S. government securities	\$ -	\$ 221,867	\$ -	\$ 221,867
Money market and mutual funds				11,283
Total investments				\$ 233,150

2003	Category			Carrying Amount
	1	2	3	
U.S. government securities	\$ -	\$ 222,195	\$ -	\$ 222,195
Money market and mutual funds				53,116
Total investments				\$ 275,311

The Facility routinely invests its surplus operating funds in money market and mutual funds. These funds generally invest in highly liquid U.S. governmental and agency obligations. Investments in money market and mutual funds are not insured or guaranteed by the U.S. government, but are registered with the SEC; however, management believes that credit risk related to these investments is minimal.

Assets limited as to use are designated for the following:

	2004	2003
By Board for future capital purchases	\$ 376,308	\$ 583,465
Under terms of bond agreement for bond repayment	233,150	275,311
Total	\$ 609,458	\$ 858,776

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 3 - Resident Accounts Receivable

The details of resident accounts receivable are set forth below:

	2004	2003
Resident accounts receivable	\$ 772,346	\$ 723,017
Uncollectible accounts	(16,635)	(16,635)
Medicaid interim payment (advances) receivable	53,088	(3,769)
Net resident accounts receivable	<u>\$ 808,799</u>	<u>\$ 702,613</u>

The Facility provides services without collateral to its residents, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from residents and third-party payors is as follows:

	2004	2003
Medicare	6 %	7 %
Medicaid	87 %	85 %
Other payors	7 %	8 %
Total	<u>100 %</u>	<u>100 %</u>

Note 4 - Property and Equipment

Cost of property and equipment and related depreciable lives for December 31, 2004 are summarized below:

	January 1, 2004	Additions	Transfers	Retirements	December 31, 2004	Depreciable Life - Years
Land and land improvements	\$ 445,760	\$ -	\$ -	\$ -	\$ 445,760	10-25
Building	9,098,610	-	(9,137)	-	9,089,473	10-40
Fixed equipment	1,044,869	-	(13,960)	-	1,030,909	4-20
Moveable equipment	1,493,124	-	23,097	-	1,516,221	4-20
Construction in progress	-	266,898	-	-	266,898	
Total	12,082,363	266,898	-	-	12,349,261	
Less accumulated depreciation:						
Land and land improvements	408,854	17,988	(41,118)	-	385,724	
Building	2,114,303	258,377	41,118	-	2,413,798	
Fixed equipment	916,974	16,969	20,549	-	954,492	
Moveable equipment	1,082,946	92,425	(20,549)	-	1,154,822	
Total	4,523,077	385,759	-	-	4,908,836	
Net carrying amount	<u>\$ 7,559,286</u>	<u>\$ (118,861)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,440,425</u>	

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 4 - Property and Equipment (Continued)

Cost of property and equipment and related depreciable lives for December 31, 2003 are summarized below:

	January 1, 2003	Additions	Transfers	Retirements	December 31, 2003	Depreciable Life - Years
Land and land improvements	\$ 445,760	\$ -	\$ -	\$ -	\$ 445,760	10-25
Building	8,988,607	110,003	-	-	9,098,610	10-40
Fixed equipment	1,010,359	34,510	-	-	1,044,869	4-20
Moveable equipment	1,488,367	36,407	-	(31,650)	1,493,124	4-20
Total	11,933,093	180,920	-	(31,650)	12,082,363	
Less accumulated depreciation:						
Land and land improvements	381,213	27,641	-	-	408,854	
Building	1,862,840	251,463	-	-	2,114,303	
Fixed equipment	898,532	18,442	-	-	916,974	
Moveable equipment	997,723	98,059	-	(12,836)	1,082,946	
Total	4,140,308	395,605	-	(12,836)	4,523,077	
Net carrying amount	\$ 7,792,785	\$ (214,685)	\$ -	\$ (18,814)	\$ 7,559,286	

During 2002, the voters of Iron County approved a tax millage to construct a 75-bed addition to the existing Facility. During 2003, the County issued bonds to finance the estimated \$9 million cost of the project and the voter approved millage proceeds will be used to pay off the debt. Construction began in 2003 and the project is expected to be completed in 2005. Upon completion of the project, the Facility will record on its books the costs being accumulated by the Iron County Building Authority.

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 5 - Long-term Debt

To finance the assisted-living project, the Facility entered into a capital lease arrangement with Iron County. The Facility will make lease payments to the County equal to the required principal and interest payments on the bonds acquired by the County. The bond yield currently is 5.44 percent, with a final maturity of November 14, 2022. Principal and interest are due semiannually on May 14 and November 14.

Long-term debt activity for the year ended December 31, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Current Year Additions</u>	<u>Current Year Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	<u>\$ 3,882,256</u>	<u>\$ -</u>	<u>\$ (121,061)</u>	<u>\$ 3,761,195</u>	<u>\$ 127,902</u>

Long-term debt activity for the year ended December 31, 2003 was as follows:

	<u>Beginning Balance</u>	<u>Current Year Additions</u>	<u>Current Year Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Bonds payable	<u>\$ 3,982,620</u>	<u>\$ 17,380</u>	<u>\$ (117,744)</u>	<u>\$ 3,882,256</u>	<u>\$ 121,061</u>

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 5 - Long-term Debt (Continued)

The following is a schedule of bond and loan principal and interest, and future minimum lease payments as of December 31, 2004:

	<u>Bonds Payable</u>	<u>Bond Interest</u>
2005	\$ 127,902	\$ 202,781
2006	134,880	195,804
2007	142,316	188,366
2008	150,084	180,599
2009	158,504	172,180
2010-2014	927,262	588,894
2015-2019	1,205,142	448,278
2020-2022	<u>915,105</u>	<u>95,395</u>
Total payments	<u>\$ 3,761,195</u>	<u>\$ 2,072,297</u>

Note 6 - Retirement Benefits

As disclosed in Note 1, the Facility is a component unit of Iron County. Iron County, including the Facility, participates in the Michigan Municipal Employees' Retirement System (the "System"). The Michigan Municipal Employees' Retirement System is an agent multiple-employer defined benefit pension plan that covers all employees of the County. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. This information can be requested by writing to: County of Iron, Courthouse, 2 South Sixth Street, Crystal Falls, MI 49920.

The obligation to contribute to, and maintain, the System for these employees was established by negotiations with the County's competitive bargaining units and requires a contribution from the employee of 3 percent. The Facility's contribution requirement is actuarially determined and is equal to the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 10 years.

Facility contributions for the plan years ended December 31, 2004, 2003, and 2002 were \$457,425, \$451,426, and \$399,765, respectively.

Iron County Medical Care Facility

Notes to Financial Statements December 31, 2004 and 2003

Note 7 - Postretirement Benefits

In addition to the pension benefits described above, the Facility provides postretirement health care benefits to all employees who retire from the Facility on or after attaining age 62 with at least 10 years of service. The facility pays health insurance premiums for the retiree until they reach age 65. Employees of Crystal Manor who retired prior to July 1, 2002 have their health insurance paid until death. Currently, 13 retirees meet these eligibility requirements. Expenses for postretirement health care benefits are recognized monthly as premiums are paid. Approximately \$80,000 and \$67,000 of costs pertaining to postretirement benefits were included in the Facility's health insurance expense for the years ended December 31, 2004 and 2003, respectively.

Note 8 - Risk Management

The Facility is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Facility has purchased commercial insurance for workers' compensation claims, auto liability, auto physical damage, and malpractice, and participates in the County's insurance plan with the Michigan Municipal Risk Management risk pool for claims relating to property loss claims.

The Michigan Municipal Risk Management Authority risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the County.

The Facility is insured against potential professional liability claims under an occurrence-basis policy, whereby all claims resulting from incidents that occur during the policy period are covered up to insurance limits, regardless of when the claims are reported to the carrier. There are no known outstanding or pending claims at December 31, 2004.

Additional Information

To the Iron County Family Independence Agency Board
Iron County Medical Care Facility

We have audited the financial statements of Iron County Medical Care Facility as of December 31, 2004 and 2003. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The following combining balance sheet and combining statement of revenue, expenses, and changes in net assets (deficit) are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedules are presented for the purpose of additional analysis of the basic financial statements rather than to present the financial position and results of operations of the individual entities and are not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

February 24, 2005

Iron County Medical Care Facility

Combining Balance Sheet December 31, 2004

	MCF	Crystal Manor	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 458,445	\$ (94,162)	\$ 364,283
Residents accounts receivable	682,607	126,192	808,799
Other current assets	134,603	20,644	155,247
Total current assets	1,275,655	52,674	1,328,329
Assets Limited as to Use	609,459	-	609,459
Property and Equipment	7,427,721	12,704	7,440,425
Total assets	<u>\$ 9,312,835</u>	<u>\$ 65,378</u>	<u>\$ 9,378,213</u>
Liabilities and Net Assets (Deficit)			
Current Liabilities			
Accounts payable	\$ 303,610	\$ 134,333	\$ 437,943
Resident trust liability	29,341	-	29,341
Current portion of long-term debt	127,902	-	127,902
Estimated third-party payor settlements	175,000	-	175,000
Accrued liabilities and other:			
Accrued compensation and related liabilities	221,017	59,962	280,979
Accrued compensated absences	518,659	170,384	689,043
Accrued interest	26,834	-	26,834
Deferred revenue - Proportionate Share Program	40,669	-	40,669
Resident deposits and advances	8,500	-	8,500
Due to (from)	(343,659)	343,659	-
Total current liabilities	1,107,873	708,338	1,816,211
Long-term Debt	3,633,293	-	3,633,293
Net Assets (Deficit)			
Invested in capital assets - Net of related debt	3,665,260	12,704	3,677,964
Restricted for debt service	233,150	-	233,150
Unrestricted	673,259	(655,664)	17,595
Total net assets (deficit)	<u>4,571,669</u>	<u>(642,960)</u>	<u>3,928,709</u>
Total liabilities and net assets (deficit)	<u>\$ 9,312,835</u>	<u>\$ 65,378</u>	<u>\$ 9,378,213</u>

Iron County Medical Care Facility

Combining Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) Year Ended December 31, 2004

	MCF	Crystal Manor	Totals
Operating Revenue			
Net service revenue	\$ 8,436,128	\$ 2,548,332	\$ 10,984,460
Other operating revenue	25,366	6,852	32,218
Proportionate Share reimbursement	302,720	-	302,720
Total operating revenue	8,764,214	2,555,184	11,319,398
Operating Expenses			
Salaries	5,126,033	1,523,739	6,649,772
Other expenses	3,844,225	1,330,102	5,174,327
Total operating expenses	8,970,258	2,853,841	11,824,099
Operating Loss	(206,044)	(298,657)	(504,701)
Other Income (Expense)			
Interest income	15,870	161	16,031
Contributions	2,480	-	2,480
Interest expense	(208,959)	-	(208,959)
Total other income (expense)	(190,609)	161	(190,448)
Transfer from County	268,517	-	268,517
Decrease in Net Assets	(128,136)	(298,496)	(426,632)
Net Assets (Deficit) - Beginning of year	4,699,804	(344,463)	4,355,341
Net Assets (Deficit) - End of year	\$ 4,571,669	\$ (642,960)	\$ 3,928,709